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NONDISABILITY Retirement

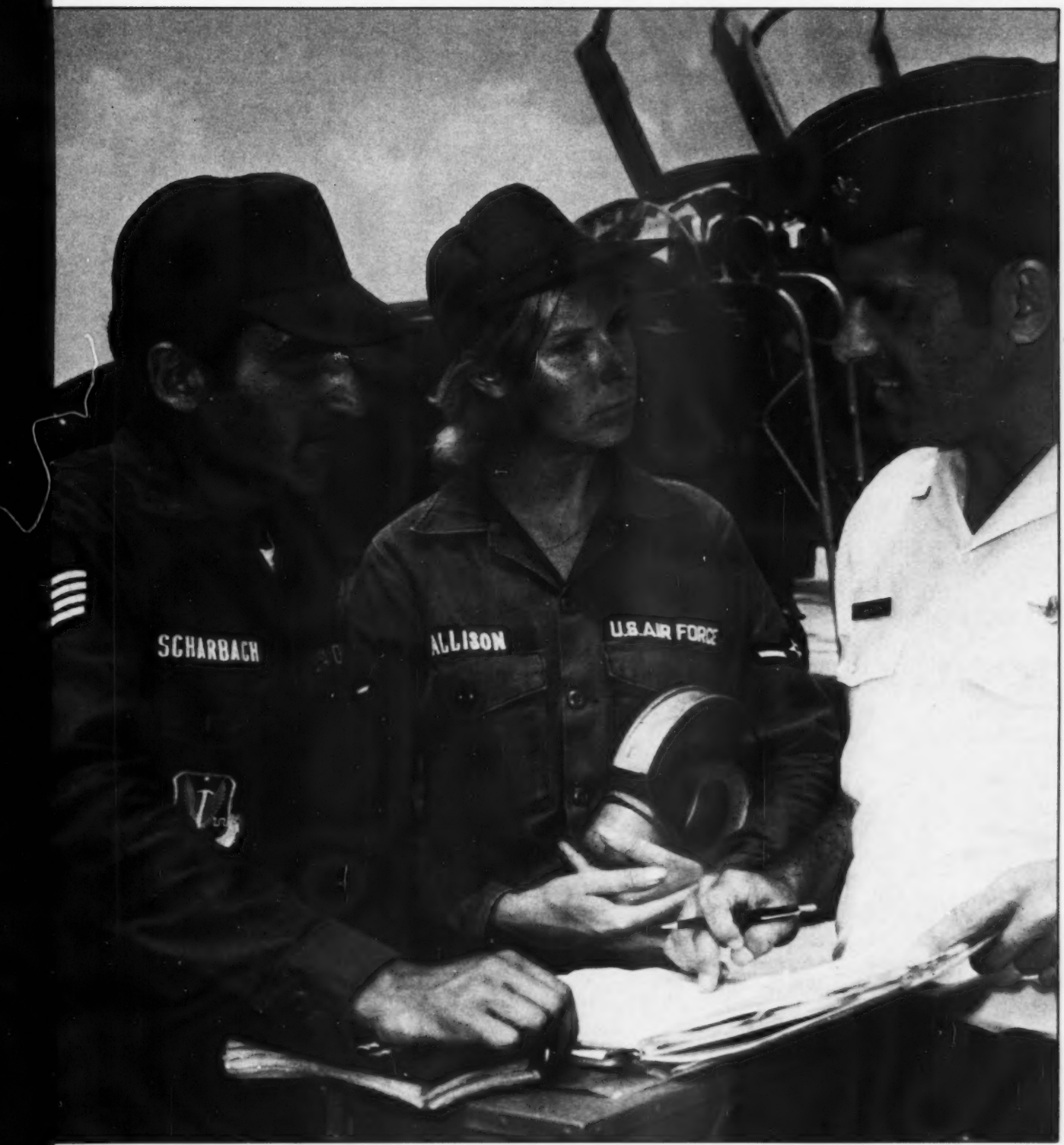
NONDISABILITY RETIREMENT:
COMPENSATION INCENTIVE & LOWER COSTS

By
WILLIAM K. BREHM
Assistant Secretary of Defense
(Manpower and Reserve Affairs)

The nondisability retirement system is of major interest to the Services for two reasons. First, it is a major element of our total system of compensation. Properly configured it can be an effective device both for managing personnel and for rewarding them for the service they have provided the country. Second, the cost of the retirement program has grown to the point where it now consumes a significant portion of the Defense budget. In FY 1964, the costs were $1.2 billion; in FY 1969, $2.4 billion, and in FY 1975, over $6 billion. The projected growth in the number of members on the retired rolls indicates that this element in the annual budget will continue to grow at a disproportionate rate with respect to the total Defense budget.

BACKGROUND

Important changes have occured in our Armed Forces since the pre-World War II period, changes which have impacted directly on the effectiveness of the current retirement system. First of all, the size of the standing force has increased appreciably. Secondly, the achievement of comparability in military compensation has increased the cost of maintaining both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The proposed nondisability retirement bill would provide an increased incentive for continued service at all points beyond five years service and particularly beyond 20 years.

our active forces and our members in retirement. And third, increased sophistication of our weapons arsenal requires that we retain our highly qualified and well-trained operating and support personnel.

These factors have dictated that a thorough analysis of the current system be made in order to determine whether or not it is supporting the Defense program in the most efficient manner. In 1972, following a series of in-depth studies, a Department of Defense retirement study group chaired by the Assistant Secretary of Defense for Manpower and Reserve Affairs recommended a number of changes in the retirement system. The proposal we are presenting today is based on those recommendations and has the endorsement of the Military Services.

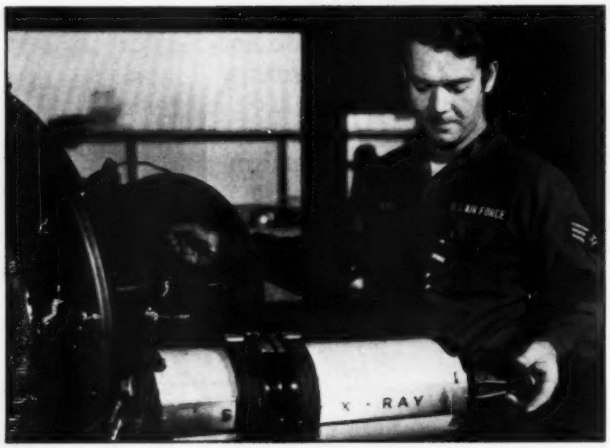
Specifically, the proposed legislation would:

- Improve compensation for all enlisted and most officer personnel whose service is terminated short of retirement eligibility;
- Provide an increasing incentive for continued service at all points beyond five years of service and particularly, beyond 20 years; and
- Ultimately reduce the rate of growth in retirement costs.

Environment of the Change

The DoD Study Group viewed the retirement system as an important element of the overall compensation system, which, in turn, supports the

House of Representatives Bill 12505 (nondisability retirement) would provide an added incentive for the young people to remain in the Military Service as a career. With increased sophistication of the weapons arsenal, the retention of highly qualified and well-trained operating and support personnel is most imperative.



The desired conceptual force profile, based on the present force, indicates that there are insufficient members in the junior year groups and a large hump just prior to the 20-year point. The ideal profile would carry more people into the 8 to 12-year career category.

personnel management system. From this perspective, the compensation system can be viewed as a device for linking the needs of the individual with the needs of the military employer. It can also enable the personnel manager to attract and retain the kinds and numbers of people that we need. The Study Group investigated the present and projected career structures of both the enlisted and officer ranks in order to determine the most effective means of maintaining a force capable of carrying out the Defense mission.

DESIRED FORCE PROFILE

If we compare the actual number of military personnel of all ranks (distributed by years of service) to a desired conceptual force profile, we find that within the present force, there are insufficient members in the more junior year-groups; and a large hump exists just prior to the 20-year point. The ideal profile would carry more people into the 8 to 12-year career category, but then separate more of them prior to the 20-year retirement date, thus retaining a smaller and more stable career force beyond 20 years. The Department of Defense has been attempting to move toward this more ideal force profile through administrative means; but to achieve this desired objective, certain compensation goals must be attained:

- The foundation must be a competitive active duty pay system. This has been achieved.
- Differential pay systems are necessary to refine the basic active duty compensation system so that changes in supply and demand can be accommodated in shortage skill areas. The Congress has given us the needed flexibility through such legislation as the selective enlistment bonus, the selective reenlistment

bonus, and certain special programs for officers.

- Separation payments are needed to maintain the required number of personnel with under 20 years of service. Payments under the present system are available only to certain categories of officers and a certain small category of enlisted Reservists.
- A reallocation of retirement benefits is needed to help the Services meet personnel management objectives for members who serve beyond 20 years.

Defects in the Current System

The DoD Retirement Study Group found defects in the present nondisability retirement system in its role both as an element of the compensation system and as an element of the personnel management system.

One of the most significant defects of the present system is its failure to vest retirement benefits before 20 years of service. Today a member who serves for less than 20 years of service forfeits his equity in the retirement system. This lack of vesting becomes especially undesirable when one considers that only about 10 per cent of those who enter military service continue on to retirement. It particularly penalizes those who invested time and effort toward making the military a career but who for one reason or another were unable to serve 20 years and thereby earn retirement benefits.

There is a tendency, therefore, to keep in the force until the 20-year point members whose skills and experience are surplus to the needs of the force. This increases personnel costs and contributes to grade structure management problems.

Another defect in the present system is the base that is used in computing retired pay. Under the present retirement system, the annuity is based on the pay the member is receiving on the actual date of retirement. Individuals who can select their date of retirement can significantly increase the value of their retired pay by delaying retirement until after a pay raise or longevity increase, whereas individuals who are not able to select the date of their retirement, such as mandatory or disability retirees, cannot.

A third defect is that the annuities available to military members with long periods of service are not competitive with the annuities available to members of other liberal retirement systems such as that provided the Federal Civil Service. The present multiplier of two and a half per cent of basic pay per year of service does not provide sufficient incentative to retain those members whom the Services want to keep beyond the 20 year point. The older a member is when he retires, the fewer opportunities he has for a good second career income. By discouraging personnel from continuing on active duty, the present retirement system fails to support personnel management objectives.

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Under the "save pay" provision of the bill, regardless of an individuals' years of service on the date of implementation, he or she will receive at least as much retired pay as any similar member who retired before.

Modification Required

The major alterations to the present system contained in H. R. 12505 are:

- Increased multipliers for members with long terms of service (over 24 years).
- A reduced annuity for members who retire short of a full career (30 years), until they reach the age when they would have had 30 years of service had they remained on active duty.
- Use of "high-one" average basic pay instead of terminal basic pay as the basis for computing retirement annuities.
- Integration at age 65 of military retired pay and the social security annuity.
- A payment to both voluntary and involuntary separatees who leave active duty before 20 years of service.

In conjunction with the revisions, the Department of Defense recommends a gradual transition mechanism and a save pay provision. The transition mechanism would gradually revise the provisions of the current system to conform to the provisions of the proposed system. All members on active duty on the date of implementation will be affected to some extent by the recommendation, although none will be completely under the provisions of the new plan. Those with 20 or more years of service at the time of implementation will be affected very little. Those with less than 20 years of service will be affected to varying degrees, but the closer they are to 20 years, the less they will be affected.

However, regardless of the individual's years of service on the date of implementation, the "save pay" provision guarantees that he will receive at least as much retired pay as any similar member who retired before him. For those on active duty, today's levels of retired pay represent the floor; no one can receive less.

H. R. 12505 is complex. However, the complexity flows in large part from the transition and save pay provisions that are required to ensure equitable treatment for those who are presently on active duty. In addition, proposed changes to the retirement system were developed—and must be evaluated—in terms of the continually evolving overall compensation system. This adds to the complexity of explaining the proposed retirement system, but it is an essential perspective if the rationale for the change is to be fully understood.

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